

#### **4. PHASE II RECOMMENDATIONS/IMPLEMENTATION**

The recommendations for Phase II of the performance audit are categorized in (a) those findings identified in Phase I that need further analysis and evaluation to assess the potential impact of improvements on the economy and efficiency of the purchasing function, and (b) Phase I findings that need a plan or strategy for implementation. The development of this implementation action could be conducted as part of the Phase II effort. Each of these categories is discussed below.

##### ***Findings that need further analysis and evaluation***

**Finding 1 -** The State should adopt a policy for the contracting out of services.

##### **Additional analysis needed:**

- Identify further functions and activities with potential for contracting out
- Develop and apply a methodology for evaluating the potential for savings from contracting out of services

**Finding 3 -** Purchase and Contracts Division should take the lead to aggressively develop innovative procurement practices that will reduce the cost of ordering supplies and services from vendors, reduce the volume of inventory maintained by the departments, and increase the quality of products purchased. Examples of innovative practices include:

- Use of prime vendors statewide, modeled after Just-in-Time concepts
- Use of Electronic Document Interchange (EDI) for ordering of supplies.

##### **Additional analysis needed:**

The Phase II analysis of the prime vendor concept would include:

- Prioritizing commodities that are potential candidates for the prime vendor concept
- Analyzing the potential cost savings for each scenario
- Developing an implementation plan

The Phase II analysis of EDI would include:

- Researching the capabilities of term contract vendors to support EDI
- Defining system requirements for using EDI
- Developing and documenting the ordering process
- Developing a pilot program at selected departments

**Finding 4 -** For the State to achieve the reported benefits of the use of single prime contractors, the State Construction Office needs to:

- Expand the information being obtained on capital projects to include definitive and quantifiable information on the advantages and disadvantages of use of multi-prime and single prime contracts.
- Develop specific strategies to identify the necessary steps, including possible legislative changes, that are needed to realize the reported benefits to the State from changing from the use of multi-prime to single prime contractors for capital projects.

**Additional analysis needed:**

- Analyze recently completed multi-prime projects to identify the extent to which (a) the State incurred additional costs of administration, (b) contract change orders were issued, and (c) delays in project completion were attributable to this form of contracting.

**Finding 5 -** To strengthen the controls over use of designers for construction of capital improvement projects, the State Construction Office should:

- Develop independent detailed estimates of the expected design costs for capital projects.
- Reevaluate the use of designers to issue construction change orders when the change orders may be a result of design deficiencies.
- As a part of the contract, require the designer to provide a specific plan for inspection during the construction phase of a project.

**Additional analysis needed:**

- Evaluate specific construction projects to identify the role and activities of the designer during the project construction phase

- Analyze the need for changes to strengthen the controls over contracting for A/E design services.

**Finding 7 -** Consolidate the State and federal surplus property functions

**Additional analysis needed:**

- Evaluate the potential income to the State from the sale of the State surplus property facility and associated land.
- Estimate the cost of any construction necessary to house both operations at one site.

**Finding 11 -** To improve the effectiveness of the limited resource of standards engineers:

- Prioritize commodities needing development of specification standards.
- Evaluate the adoption of standards that already have been developed by other entities, such as other states and the federal government.
- Evaluate the need to make standards engineers services available to Purchase and Contracts Division buyers.

**Additional analysis needed:**

- Identify the extent of commodities purchased by the State that are already covered by standards developed by other governmental entities
- Determine the feasibility of adopting these standards for purchases by the State of North Carolina.

***Findings that need a plan or strategy for implementation***

**Finding 2 -** The State should take steps to develop and implement a management information system on purchase activity by State departments and agencies.

**Finding 6 -** The Purchase and Contracts Division should reduce or redirect resources of 11 staff members to reflect the decrease in work load.

**Finding 8 -** To reduce the length of time required to process transactions:

- Provide the requesting agency or department the option of having the Purchase and Contracts Division return the bid to the using department before an award is made.

- Raise the requirement for approval by the Board of Award to \$100,000.

**Finding 9 -** To improve the effectiveness of term contracts and to improve the responsiveness to the needs of agencies and departments, term contracts should be negotiated to allow small purchases under \$50 to be bought off-contract and larger volume purchases exceeding established limits to be procured under separate contracts.

**Finding 10 -** Clarify the State policies on purchases from Correction Enterprises by:

- Developing a policy that addresses the appropriate size, capacity, and potential benefits to prisoner rehabilitation.
- Developing a policy that clearly specifies when State agencies and departments should purchase from Correction Enterprises.

**Finding 12 -** For improved oversight of the State procurement practices:

- The Department of Administration should mandate responsibility to the Purchase and Contracts Division to perform oversight reviews of procurement practices of departments and agencies.
- The Purchase and Contracts Division should establish a program for oversight reviews of departments and agencies.

**Finding 13 -** To improve the usefulness of the State Purchasing Manual, the following steps are needed:

- Update the manual in a format to facilitate inclusion of new material as necessary
- Provide guidance on informal purchasing policies to agencies
- Develop a buyers' code of ethics
- Establish policies and procedures for handling of bid protests

**Finding 14 -** To enhance the use of surplus property by State agencies and departments:

- The surplus property sections should develop an on-line inventory management system.
- State agencies should be provided direct reimbursement for proceeds from sale of surplus property.

**Finding 15 -** The State lacks an aggressive program for meeting its contracting goals with minority-owned, women-owned, and disabled-owned businesses

- The Purchase and Contracts Division should publicize its Minority Programs Coordinator
- Hold outreach programs

**APPENDIX A**

**PURCHASING AND PROCUREMENT--NORTH CAROLINA  
BENCHMARKED AGAINST RECOMMENDED POLICIES**

Purchasing and Procurement  
North Carolina Benchmarked Against Recommended Policies

Structure, Policy, and Authority

Recommended Policy	North Carolina (a) Documented Policy	North Carolina (b) Procedure	Comments
Establish a central purchasing authority to ensure independence as set forth in writing.	✓	✓	
Define and document responsibility and authority. Authorize delegation to department level.		✓	Complete listing of delegations not set forth in writing. Delegations are out of date.
Set forth goals in writing.	✓	✓	
Require regulations for certain purposes and authorize policy making authority.	✓	✓	
Encourage team buying.		✓	
Establish central purchase responsibility for correctness of solicitations and contracts.	✓	✓	

(a) Based on the State purchasing manual and administrative code

(b) Based on data obtained during the performance audit

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The Competitive Process

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
State competitive sealed bidding preferred method.	✓	✓	Informal bidding procedures for bids less than \$10,000. See information on non-competitive solicitations.
Ensure Invitations for Bid and RFPs are issued to large enough groups of potential suppliers.	✓	✓	
Require bidders to certify noncollusive behavior--bid award history.	✓	✓	
Require waiver of competition for defined emergencies.	✓	✓	
Prohibit use of most favored customer pricing.		✓	
Establish process that allows vendors to appeal specifications and award decisions.	✓	✓	Bidders recourse not defined in the RFP--see recommendation on bid protest procedures.
Allow central purchasing to reject all bids when satisfactory bid is not obtained.	✓	✓	
Require cost and price analysis for negotiated contracts.	✓	✓	
Require that any extension or renewal of contracts be provided for in original solicitation of bid.	✓	✓	
Require prompt payment for goods/services.	✓	✓	
Coordinate purchasing legislation with central unit.		✓	



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Planning and Scheduling

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Direct central purchasing to establish and maintain procurement information system.	✓	✓	We are recommending an enhanced management information system.
Require central purchasing to establish and maintain consolidation requirements and term contract techniques.	✓	✓	
Require multi-year contracts to specify term of contract history.	✓	✓	
Require that contracts for rental, leases, lease/purchase be subject to regular competition.	✓	✓	
Issue guidelines on applicability of cost principles.			No guidelines have been issued.
Arrange for purchasing to participate in planning, to lend specific expertise.		✓	

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Acquisition: Specifications

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Write purchase specification to encourage full competition.	✓	✓	Indication of restrictive specifications based on average number of procurements with less than three bids.
Establish and maintain specifications and standardization program with written procedures.	✓	✓	Report recommends improvements in the standardization program.
Prepare, review, and approve purchasing standards.	✓	✓	
Prohibit use of restrictive brand names.	✓	✓	
Participants, including private sector, prepare requirements that are open and nonrestrictive.		✓	
Use advisory committee and departmental personnel to establish and modify specifications.	✓	✓	
Issue specifications in prescribed format and properly index.	✓	✓	Specifications not shared with receiving personnel.

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Acquisition: Competitive Solicitations

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Authorize acquisition of goods/services by competitive sealed bidding, negotiation, procedures for small purchases, and sole source.	✓	✓	
Authorize pre-qualification of bidders including documentation for suspension and debarment. Establish rules for prospective bidders.		✓	State does not prequalify bidders and has no formal process for reviewing performance.
Prepare written description for maintenance of the bidders list.	✓	✓	No documentation is available.
Establish conditions for notices of request for purchase, sole source contracts, and receipt and opening of bids.	✓	✓	
Establish procedures to modify/terminate a contract.		✓	
Set procedures for all or nothing bids or unsolicited alternative bids and for accepting/rejecting unsolicited offers.	✓	✓	
Use established criteria for bidders conference.		✓	
Allow purchasing department to extend time for acceptance and review of bids.	✓	✓	

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Acquisition: Competitive Methods

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Establish \$ amount for sealed bids and competitive negotiations.	✓	✓	Currently, there is no established dollar amount for competitive negotiations.
Require competition in making small purchases.	✓	✓	
Allow waivers for small irregularities.	✓	✓	
Convey public information only at public meetings and bid abstractions.	✓	✓	
Allow bids to be received by telephone/FAX.	✓	✓	FAXes are not allowed for sealed bids. Departments allow telephone and FAX bids on informal procurements.
Use competitive solicitations for professional services. Do not award solely on price.	✓	✓	
Do not allow for submission of new bids and proposals after best and final.	✓	✓	

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Acquisition: Noncompetitive and Limited Competition

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Require rules defining conditions for making procurements by other than competitive sealed bids. Provide that the chief purchasing officer have final determination in the waiver.	✓	✓	
Use negotiation and price/cost analysis on noncompetitive purchases.		✓	
Have central purchasing review the quality and price of items sold from one agency to another.			
Require geographic purchasing under conditions that favor it.	✓	✓	

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Acquisition: Evaluation and Award

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Ensure bid award is made to responsible vendor with lowest bid. Seek to identify areas stressing economy/utility.	✓	✓	
Ensure factors to be considered in award process are set forth in request for bid.		✓	
Require central purchasing to publish rules governing evaluation award process.			
Limit use of multiple awards.	✓	✓	
Consult using agency during evaluation process.	✓	✓	We are recommending that consolidation occur only when requested by the using agency.
Document reasons for every award.	✓	✓	

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Quality Assurance: Inspection and Testing

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Require central purchasing to establish formal inspection and testing programs. Central purchasing should prepare inspection manual.	✓	✓	Not all commodities purchased are tested.
Ensure payment schedules are tied to inspections of purchases.			Payments are not tied to inspection of goods.
Central purchasing should write guidelines and give testing approval. Receiving personnel should have access to inspection guidelines.	✓	✓	Procedures are not distributed to receiving personnel.
Establish standards for inspection and authorize Purchasing Department to inspect vendor plant facilities.	✓	✓	Not part of North Carolina's documented policies, procedures, and practices.
Establish procedures to follow when contractors fail to perform satisfactorily.	✓	✓	Evidence of failure to perform is not being communicated to Purchase and Contracts from the departments.
Coordinate testing between agencies.	✓	✓	

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Safeguards

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Provide public access to the procurement process by publishing the purchasing laws, rules, and regulations; notices of bids and proposals; bid openings and access to non-confidential records.	✓	✓	
Provide criminal penalties for attempting to influence awards and establish parties to be financially liable for losses.			Laws and penalties are not documented in the Purchasing Manual.
Require the code of ethics and standard of conduct for public officials to be listed.			No standards of conduct have been adopted.
Central purchasing should have a system to evaluate vendor performance.			System is not in place to evaluate vendor performance.



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Supply Management

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Require using agencies to identify and declare excess items.	✓	✓	
Agencies turning in surplus property should receive credit. Surplus sales should be held regularly.			Credit is received at the department level and not the agency level.
Where trade-ins are called for, detail cost of new items before and after.	✓	✓	

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Cooperative Purchasing: Local, State, and Federal Government

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Authorize cooperative purchasing agreements between and among State and local governments.	✓	✓	
Use cooperative purchasing to include resale or exchange of goods and shared information.	✓	✓	

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Professional Development

Recommended Policy	North Carolina Documented Policy	North Carolina Procedure	Comments
Provide statement of intent encouraging professional competence, including training programs for purchasing staff.		✓	Documented statement was not found.